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PROTECTION
versus
FREE IMPORTS

BY

Ramsay Muir

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PROTECTION
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INTRODUCTION.

A very vigorous agitation is going on for the abandonment of the policy of Free Trade, which this country has pursued for more than eighty years, and it is therefore desirable to restate the Free Trade position in the light of contemporary conditions. This is the purpose of the present pamphlet.

I shall first consider the position of this country, which is different from that of any other, and then take up in order, and try to answer, the following questions :—

(1) Why did we originally adopt Free Trade, and what have been its results ?

(2) If Free Trade is right, why is our trade in such a bad way, and why have we so many unemployed ?

(3) Can we make things better by adopting a policy of Free Trade within the Empire ?

(4) Would a policy of Protection or Safeguarding help us to deal with Unemployment ?

(5) Is Protection the right way of getting British agriculture into a better condition ?

(6) What have been the effects of the small experiments in Protection which have been made during the last few years under the Safeguarding scheme and in other ways ?

(7) What would be the effects of a full-blown policy of Protection ?

(8) Are there any signs of a movement towards Free Trade in other countries ?

THE POSITION OF BRITAIN IN THE WORLD.

THERE are forty-five millions of us crowded into this little island. We all have to be fed, and clothed, and housed, and provided with the means of a civilised existence. That is the purpose of all our industrial and trading activity.

Our island cannot provide us, from its own resources, with the necessary quantity of food. We produce only enough food to feed us for between four and five months in the year. To put the same thing in another way, out of every ten shillings that the housewife spends on food, only four shillings represents food grown at home ; six shillings represents the cost of food brought from overseas.

No doubt we *could* produce more food at home. Perhaps we could produce all we need, by putting most of the country under glass and spending fabulous sums upon fertilisers and artificial sunlight. But this would cost so much that we should have nothing left for anything but food ; wages would have to be raised so high to cover the cost of living that our industries would be destroyed. We might make ourselves " self-supporting," but it would be at the cost of a terrible impoverishment of life for everybody.

Nobody seriously proposes that we should try to do this. But a great many people seem to think that we should do something of the sort, by taxing most of the food that comes to us from overseas, and therefore raising the price of all food, in order to make ourselves *just a little bit* more self-supporting.

Hitherto we have not followed this policy. Since we cannot be self-supporting, we have thought it best to get our food as cheaply as possible, so as to keep down the cost of living for our people, and so make it easier for us to compete with other countries more fortunately placed.

We must never forget that *Britain is the only country in the world that is completely dependent, for its very existence, upon supplies from other countries.* Other countries either (like America and Canada) produce a great deal more food than they require, or (like France and Germany) are practically or entirely self-supporting in regard to the actual necessities of life.

But we have to pay for our supplies from oversea, and we can only pay for them by the products of our industry. And here comes in another of our difficulties. *With the single exception of Coal, there is not one of the principal raw materials required for modern industry of which our island produces enough for our own needs.* All the raw cotton which we work up into cloth, most of the wool, all the silk, all the jute, all the rubber, much of the iron, most of the other metals, practically all the oil and petrol, and nearly all the timber which we use, have to be imported.

And, of course, they all have to be paid for by exports, mainly of manufactured goods, or by the rendering of services, such as the carrying of goods for other nations in our ships. They can't be paid for in any other way. They can't be paid for with gold and silver, because we produce none : we have to buy all the gold and silver we need, just like the raw cotton, by means of goods and services.

The Condition of our Existence.

In short, we have to ransack the world for the necessary raw materials, as well as for the food we need ; we have to bring back these goods over thousands of miles ; we have to add to their value by our skill in manufacture ; and then, in order to pay for all this, we have to sell the products wherever we can, at prices which the purchaser will pay, and often in competition with other peoples (such as the Americans) who have immense supplies at their disposal.

It is a condition of our existence that we must carry on a colossal export trade, far greater (in proportion to our numbers) than any other nation needs to do. Export trade is the very foundation of our national existence. If we are not so efficient in making our goods that we can hold our own against all competition, and sell our products in spite of all obstacles, we must starve. That is the hard fact which we have to face.

Comparison with America.

Let me repeat that no other country is in this position. People often say, for example, that America has protection, and is the most prosperous country in the world. The main reason why

America is so rich is that she can produce from her own soil a superabundance of everything that is necessary for a rich and full life. She has only 7 per cent. of the world's population, yet she produces 22 per cent. of the world's wheat, 43 per cent. of the world's coal, 60 per cent. of the world's steel, 58 per cent. of the world's cotton, 72 per cent. of the world's oil, and so forth. It would be a strange thing if her people were *not* prosperous.

America can live on her own fat. If the rest of the world were submerged she could still give her people a rich and prosperous life ; and she has a huge Free Trade market within her own borders. We *cannot* live on our own fat : if the rest of the world were submerged, two-thirds of our population would have to die of starvation.

That is why America can afford to adopt the policy of Protection, which aims at self-sufficiency ; while we have adopted the policy of Free Trade, which recognises that we are dependent upon the rest of the world, and that if we cannot meet competition on equal terms in all the main commodities in which we deal, we are ruined.

How We Manage to Exist.

The amazing thing is that, in spite of our difficulties, we have achieved our aim. We have kept our 45,000,000 fed and clothed and housed. Not only that, but we have kept them at a higher standard of life than any other country, excepting only the new lands like America, with their illimitable resources. Heaven knows the standard of life of our people is low enough. But—measured by wage-levels—it is higher than that of any other country in Europe except Denmark, which happens to be a Free Trade country.

The League of Nations has worked out the average level of wages (measured by purchasing power) in all the countries of Europe ; and the figures show that *the level of wages in this country is higher than that in any Protectionist country in Europe, and twice as high as in some of them.* Where tariffs are highest, wages are lowest, and where tariffs are lowest, wages are highest. There is no exception to this rule, apart from the new countries.

Moreover, there has been a steady improvement of our standard of living. The most trustworthy statistics show that the average wage of a working man in England is *four times* as high as it was a hundred years ago. He gets twice as much money ; and each pound buys twice as much. That has happened under Free Trade.

This is an achievement of which we may well be proud. To what is it due ? It was only made possible by the development of an immense export trade to every part of the world, and by the creation of a huge mercantile marine, which plies upon all the seas of the world.

Many people seem to think that we have been beaten in export trade by our foreign protected competitors, and that they have shut us out from our old markets. If that were true, we should be ruined. It *is* true, of course, that our principal export trades have lost ground since the war ; this is a serious matter, and we shall have to consider its causes later. But it is *not* true that we have fallen behind our protectionist rivals. On the contrary, even last year, *we exported twice the value of manufactured goods per head of the population exported by any other country. If we were ever to sink to the level of exports of the countries which are spoken of as if they had beaten us in the race, we should be undone.*

This immense export business, by which we live, has only been developed since we adopted Free Trade, and has only been made possible by Free Trade. This fact comes out very clearly when we examine why and how we adopted Free Trade.

I.—WHY WE ADOPTED FREE TRADE.

Ninety years ago this country was in a position very similar to that of to-day. She had recently emerged from a great war, and was heavily burdened with debt. But she was then beyond comparison the greatest manufacturing country in the world : other countries had scarcely begun to imitate the methods of machine-production, which were invented in England. We had a protective tariff against foreign imports and there were no tariffs against British goods within the Empire, so that *we actually enjoyed what Lord*

Beaverbrook calls "Empire Free Trade." The population was less than half what it is now. Yet in spite of this, there was acute distress in the country. The number of the unemployed was very great : we have no exact figures, because there was no system of unemployment insurance ; but about one-tenth of the population were in receipt of poor relief. Wages were cruelly low, and prices were high. Those days—when England enjoyed the blessings of Protection—were known by the grim name of "the hungry forties" ; and revolution, inspired by sheer misery, seemed always to be at hand.

The Results of Free Trade.

Then, after long and heated discussions, we decided to change our fiscal policy. In a series of bold Budgets, we swept away all taxes on imported goods, whether food, raw materials, or manufactures, and adopted the policy of Free Trade (or, if you prefer the term, Free Imports) to which we remained loyal until after the last war.

What were the results ?

In the first place, there was an immense *increase of exports*. In the twenty-seven years between the Battle of Waterloo and the beginning of Free Trade, British exports had actually gone down, in spite of our supremacy in machine-production—the reason being that we had been taxing imports ; and if you are not prepared to buy, you cannot expect to sell. But in the next twenty-seven years British exports were actually increased fourfold.

In the second place, there was a great *decrease in the cost of living*, and at the same time a steady rise, all round, in wages.

In the third place, *British industry went ahead* as never before, in spite of the fact that the European countries were now adopting the new methods of machine-production ; and unemployment ceased to be a bugbear. These were the direct results of Free Trade.

The Reason for These Results.

Why did Free Imports produce these results ? The reasons given by its advocates, which have been fully borne out by experience, are as follows :—

Low Costs.

(1) If you tax imports, not only will the imported goods rise in price, but the corresponding goods produced in this country will also rise—or, what comes to the same thing, they will not fall as much as they might otherwise do. Consequently the cost of living must be increased, or kept at a high level, and the costs of production in all industries must also be increased, or kept at a high level ; for every industry uses the products of other industries. But if you let everything in free of tax, you will get a constant supply of all sorts of commodities flowing into the country at the lowest world price ; *the cost of living, and the costs of production in all industries, will therefore be reduced to the lowest level.*

Favourable Conditions for Manufacturers.

(2) When the manufacturer gets all his requirements at the lowest cost, he *ought* to be able to compete on very favourable terms with foreign manufacturers, many of whose requirements are taxed. If he *cannot* compete, there must be something wrong : either the industry must not be suitable to this country, or the manufacturer must be inefficient.

Very frequently, since Free Trade was established, manufacturers have complained that foreign competition was eating into their home market, and have clamoured for Protection. The reply given to them has always been the same.

"This country has got to meet competition and beat it, or go under. What applies to the country as a whole applies to each particular trade. If you cannot hold your own against foreign competition in the home market, on your own doorstep, you certainly will not be able to do so in the foreign market. We are not going to protect your inefficiency by enabling you to go on as you are, and keep up your price at the expense of the home consumer. If we do that, you will only become a burden on the other industries, by increasing their costs of production. Moreover, if we exclude your foreign competitor's goods, *he will not throw them into the sea ; he will sell them to your foreign customers.* We live by export trade, and we cannot afford to imperil our foreign trade in order to bolster up unsuccessful producers at home."

To take an example, twenty years ago there was an invasion of the British market by American boots, the Americans having invented labour-saving machinery by which boots were produced more cheaply, and with finer gradations of size. The British boot-makers clamoured for Protection. If they had got it, they would have been tempted to go on in their old ways, keeping their profits up by making the home-consumer pay more for less satisfactory boots. They did not get it, and were therefore forced to improve their methods, with the result that, in a few years, British boots were being sold in America, in spite of the American tariff, because the British manufacturer, as soon as he had improved his methods, reaped the advantage of being able to purchase all his requirements at the lowest price.

The Re-Export Trade.

(3) When there are no taxes upon imports, the foreign manufacturer often finds it worth his while to send us goods which our merchants purchase for sale abroad, making what may be called a "shopkeeper's profit" in the process. This kind of trade (which we carry on upon a large scale, and on which we make handsome profits) is known as the re-export trade. It is at once destroyed when the imports are taxed.

A very good example is provided by the lace trade, which has been the subject of one of our recent protectionist experiments.. Before we put a tax on foreign lace, we used to import large quantities of it. But we re-exported (at a profit) about four-fifths of all we imported. *We actually kept for our own use less foreign lace than we have done since the duty was imposed.* What happened was that foreign buyers came to England to lay in all their stocks of lace: they could get every kind here, British and foreign, because there was no duty on the foreign lace. As soon as the duty was put on, they ceased to do this, because the foreign lace was dearer in England. They went straight to the countries which produced the lace, and sometimes they bought all they wanted abroad, without coming to England at all. The consequence was that we not only lost all the "shopkeeper's profits" on the re-exported foreign lace, but we also sold a great deal less British lace to

foreign customers. Since the duty on lace was imposed in 1925, we have lost nearly all our re-export trade; and we have also lost 16 per cent. of our exports of British lace. The same thing is bound to happen in any trade when a duty is put on. We lose the re-export trade. That is no small thing. The re-export trade, as a whole, amounted last year to no less than £125,000,000.

The manufacturers may profit by this arrangement, because (behind the tariff) they can keep up their prices to the British purchaser, especially if their goods are (like lace) mainly sold at home. But the Nation certainly loses, and loses heavily. It is a great mistake to forget the value of the re-export trade, which helps materially to keep us going. It is one of the by-products of Free Imports.

Free Trade and Shipping.

(4) An even more important result of Free Imports is that it gives an immense encouragement to shipping, and consequently to shipbuilding, because of the constant stream of goods that flows into and out of the country. *This little island owns nearly one-third of the ships of the world,* and it does an immense carrying trade for all countries, from which it makes a profit of something like £200,000,000 a year—one of the principal ways of paying for our requirements from overseas. Even in these bad times, we build more than half of the ships that are built in the world: we build not only for ourselves, but for all the trading countries.

Shipping and shipbuilding are almost wholly dependent upon Free Trade. When America was practically a Free Trade country, away back in the middle of the nineteenth century, there used to be more American ships in the Mersey than British ships; but as soon as she adopted Protection her ships almost disappeared from the seas. Protectionist countries, when they want to build up their shipping, have to give subsidies at the expense of the taxpayer; and even then they cannot compete with the one great Free Trade country in the world. There is no doubt at all that, if we abandon Free Trade, our shipping supremacy will soon disappear.

If our export trade (which has never in recent

years been less than about £700,000,000) goes down to the level (in proportion to population) of the export trade of Protectionist countries, that is, if it is reduced to about half of its present volume—if we also lose almost the whole of our re-export trade, which has amounted in recent years to about £125,000,000, and which would be destroyed by Protection—and if on the top of this we lose a large part of the profit on our shipping, which is in the neighbourhood of £200,000,000—we shall to a certainty be ruined. Yet all these profits, by which we are kept alive, are the outcome of Free Trade, and would be immensely diminished by Protection. This would not matter so much if, like America, we could live on our own fat. But we cannot.

Free Trade and Finance.

(5) Finally, because this country has traded freely with all the countries of the world, it has become the chief financial centre of the world's trade. A great part of the world's commerce is carried on by means of "Bills on London," because every country has trade dealings with this country. And we make very large profits out of rendering this kind of financial service to the traders of all nations. We should lose the greater part of this revenue if we ceased to offer an open market to all the world.

These are the advantages which the system of Free Trade or Free Imports was expected to yield, and has actually yielded. It is only by these means that out little island, which cannot possibly feed its inhabitants, or provide them with the raw materials for their industry, has been able to keep its dense population in being at a steadily improving standard of comfort. Evidently we ought to be very sure about what we are doing before we risk them.

But, people say, conditions have changed, and the system which worked so well in the nineteenth century does not work any longer. Our great export trades are going down. We have more than a million and a half unemployed. If Free Trade is right for us, why are we suffering in this way? Let us examine, very briefly, the causes of our present troubles, and see whether they are due to Free Trade or not.

II.—WHY IS OUR TRADE BAD?

To begin with, we must get rid of the idea that this country alone is suffering from bad trade and unemployment. If we have a million and a half unemployed, rich and prosperous America has normally—even in times when trade is good—about two millions; this year she has anything from four and a half to six millions, while Germany has nearly three millions.

If the existence of 1½ million unemployed workers in this country is held to prove the failure of Free Trade, the existence of (say) 5 millions in America would seem to prove, still more forcibly, the failure of Protection.

In truth, the causes of bad trade are to a large extent independent of fiscal policy, though a mistaken fiscal policy can easily make things a great deal worse.

Decline of Exports.

Our bad trade is quite certainly due to the decline of our exports. It is mainly among the workers in the great export trades—coal, iron and steel, cotton, woollens, shipbuilding and engineering—and in the "sheltered" trades, like building, which are not exposed to foreign competition at all, that unemployment is to be found on a large scale. *We are not suffering because too many foreign goods are coming in, but because too few British goods are going out.* What we need is some means of increasing our exports, not some means of diminishing our imports. If we give all our attention to reducing our imports, we may find that the consequence is a reduction of our exports, because, broadly speaking, exports pay for imports.

What, then, are the causes of the decline of our export trade—which is undeniably a very serious matter for a country in our situation?

Effects of the War.

(1) The general impoverishment due to the War, and the disturbances in some countries which used to be our best customers, such as China and India, have led to a decline of the total volume of international trade; and, as we depend more than other countries upon oversea trade, we suffer more than other countries.

(2) During the War we practically had to

abandon our export trade, in order to devote ourselves to war-work. The result was that many countries which had previously bought from us built up industries of their own, and some countries, notably America and Japan, made great inroads into our markets. It has not been easy to recover this lost trade.

Foreign Tariffs and Retaliation.

(3) Since the War, most of the Nations of the World have been building up high tariffs, with the idea of making themselves self-supporting and taxing themselves into prosperity.

They damage themselves by doing so, because they force their people to pay more for goods inefficiently produced at home, and therefore leave them less to spend on other things: it is notable that (according to the report of the League of Nations) real wages are lowest where tariffs are highest. But while *they damage themselves, they also damage us*, by making it more difficult to sell our goods. At a conference of all nations held at Geneva in 1927, everybody—even the spokesmen of the Protectionist countries—recognised that the European peoples were ruining themselves by this policy. But they go on pursuing it, just as they go on heaping up armaments, because they want to be self-sufficient.

Some people think that because the Protectionist countries are damaging themselves and us, we should retaliate by damaging ourselves and them still more. Because other nations have put grit in the wheels of international trade (the Protectionists argue) let us put *more* grit in, in the hope of making the wheels run more smoothly.

Again, some say (like Mr. Baldwin) that if we " retaliate " we shall be able to force other nations to lower their tariffs. But all the protectionist nations have been acting on this principle for a long time, without any result except that their tariffs get steadily higher. If this idea was sound, every country in Europe ought to be Free Trade by now! As a matter of fact, if any tariff is reduced in this or any other way, we get the advantage, so long as we stick to Free Trade, because our commercial treaties entitle us to what is called " most favoured nation " treatment. So we may as well stick to Free Trade and leave the other countries to do the dirty work for us!

Rationalisation.

(4) There is no doubt that in some respects our manufacturers have not been as ready to adopt new methods of large-scale production and what is called " rationalisation " as some of their rivals, and we have suffered from this, especially perhaps in the cotton, coal, and the iron and steel industries. The process is going on, though not as rapidly as is necessary. But the first effect of introducing labour-saving machinery is to increase unemployment, though in the long run, by enlarging sales, it gives work to more people. Part of our heavy unemployment, and much of that in America, is due to this cause.

Mr. Baldwin has been arguing (in his vague way) that we ought to put on protective tariffs in order that the industries may " rationalise " themselves behind the tariff wall. But Mr. Baldwin himself has tried this method during the last few years, and it has not worked. He put on " safeguarding duties " in various trades for five years; and he himself said that if an industry could not put its house in order in five years, it was not worth preserving. When they were thus given an advantage over their foreign competitors, the protected industries were apt to think that they need not bother, but could go on in their old ways.

The cutlery trade is an example. It is carried on, often wastefully and inefficiently, by a lot of little concerns; and it suffered from foreign competition largely because the foreign concerns were organised on a big scale for mass production. The duty was put on; but the trade did not reorganise itself. The result is that, after nearly five years of the duty, and in spite of it, *we imported last year more than twice as much foreign cutlery as we did in the year before the duty was put on.*

The Burden of Taxation.

(5) But the most serious cause of our bad trade is the terrible burden of taxation. We are paying in taxes, per head of the population, twice or three times as much as our trade rivals, and while they are reducing their taxes, we are increasing ours.

Some people seem to think that it doesn't matter how high the taxes are, so long as they are mainly paid by the well-to-do. But the thing

doesn't work as simply as that. When anybody (a shopkeeper, for example) is heavily taxed, he is bound to pass on the burden to his customers, if he can. He must either put on a penny here and a shilling there, to cover his extra costs, or put up his shutters. The sheltered trades (which are not exposed to foreign competition) and the distributive trades, mostly can and do pass on the burden. These trades are therefore fairly prosperous. The result is, that the cost of living and the costs of production rise. Everybody has to pay more, even the poorest. *But the export trades cannot pass on the burden, because they have to sell at the world price.* The result is that they are crippled, in much the same way as they would be by a protective tariff, which would also increase the cost of living and the costs of production.

If we were to add to the existing burden of taxation the further burden of a protective tariff, the export trades would be in danger of complete ruin. For they would lose far more in this way than they could possibly gain by being put in a position to raise prices against the home consumer under the shelter of a tariff. This would be the case especially in those trades which sell most of their product abroad—like the cotton trade, which exports about 80 per cent. of its total output. In other words, a protective system, instead of helping the export trades, would finally ruin them.

These causes sufficiently explain the decline of our great export trades, which is the main cause of our distress. *We ought to be studying how to remove these causes, instead of talking about excluding foreign imports, which are, in fact, largely sent to us in payment for our exports.*

It is impossible to protect the export market, because you cannot force the foreigner to buy your goods. It is possible to protect the home trades, because you *can* force the home consumer to buy your goods at a higher price. But it is not the home trades that are suffering most. And if you do protect them, thus enabling them to keep their prices up, the inevitable result is that you increase the burdens of the suffering export trades.

That way ruin lies; as Australia, with all her natural wealth, is finding to-day. She is protecting her home-trades against us, and by doing so

she is seriously increasing the cost of living to all her people, and is throwing so heavy a burden upon her main industries, especially wool-growing, that they are threatened with ruin. She is consequently suffering from unemployment even more seriously than this country.

III.—WOULD EMPIRE FREE TRADE HELP US?

Lord Beaverbrook and his disciples are preaching that since "insular Free Trade" is unable to save us, we ought to try what he calls "Empire Free Trade," turning the whole British Empire into a single economic unit, and thus making ourselves self-supporting, like the United States—as we can never do so long as we think of this little island as a unit by itself.

A Changing Policy.

The policy called Empire Free Trade has undergone so many changes that it is very difficult to know what it means. In grappling with it, one feels like the man in the *Arabian Nights*, who had to wrestle with a magician who kept constantly changing his form: first he was a lion, then he became a tiny mouse which nearly slipped through the wrestler's fingers; finally he changed into a stream of running water, on which it was impossible to get a grip.

Phase I.

Lord Beaverbrook's first proposal was that there should be complete Free Trade within the Empire, and a tariff against all foreign goods—food, raw materials and manufactures. *Two-thirds of our oversea trade is carried on with foreign countries, and only one-third with the Empire.* Even if this scheme could have been carried out, it would have involved that we should place barriers in the way of two-thirds of our trade, in the hope of building up the remaining third to fill the gap, and more: which sounds a risky project.

But the Dominions and India made it very clear that they had no intention in throwing down in our favour the high protective tariffs they have raised. Lord Beaverbrook discovered that he

had never meant them to do so. " Empire Free Trade " therefore now meant that there was to be *no greater freedom of trade within the Empire than there is to-day.*

Phase II.

Lord Beaverbrook's scheme was now to be limited to the dependent colonies whose policy we control. But these colonies do not raise any barriers against our trade ; so there would still be no increased freedom of trade. They were, on the other hand, to be compelled to put on heavy tariffs against their foreign customers, who buy a large part of their rubber, sugar ,cocoa, oil and other products. This would have seriously impaired their prosperity, and made the imperial connection seem to be a cause of tyranny. Everybody who is concerned in the trade of these colonies agrees that such a policy would be ruinous. Moreover, we are debarred from adopting it by treaties. And the notion that this country could make good the loss of its foreign trade, which is two-thirds of the total, by obtaining even a complete monopoly in the markets of Tropical Africa and the West Indies is too fantastic to be worthy of consideration.

Phase III.

So Lord Beaverbrook next proposed what he called " a limited partnership " between this country and the Dominions and India, whereby special treaties were to be made for the admission to the Dominions of any British products which the Dominions did not make themselves, in return for a tariff in this country against foreign goods. Any British industry which competes with an Australian or Canadian industry (such as woollens) is presumably (under this scheme) to *lose its foreign markets without gaining an imperial market*, which does not appear to be a very promising arrangement.

An Illustration.

Lord Beaverbrook has only given one example of how these " limited partnerships " would work ; but he repeats it so often that it is evidently dear to him. It is a proposal that Canada should

give us a " secure market " for our steel, in return for getting a " secure market " in this country for her wheat.

At present the Canadian manufacturers naturally get most of their steel from America, just across the frontier. Lord Beaverbrook's scheme would require Canada to raise a high tariff against American steel, in order that the Canadian manufacturers might be forced to get British steel, at a higher price, from three thousand miles away. Are they likely to agree ?

But the other side of the bargain is even more interesting. Last year the Canadian farmers had a bumper crop of wheat. They formed a wheat-pool to force a higher price out of us. But wheat poured in from the Argentine ; the price of bread in England was kept down ; and the Canadians were left with a lot of wheat on their hands. Lord Beaverbrook, who is a Canadian, regrets this. He therefore proposes that we should put a tax on Argentine wheat, in order to give the Canadian wheat-pool a clear run.

But why should we interfere with our trade with the Argentine, which is one of our best customers, taking as many of our manufactured goods as Canada ? We have immense investments of British capital in the Argentine. This means that we have sent out steel rails, locomotives and rolling stock made by British labour, for the Argentine railways, and instead of being paid cash down, we are taking payment in the form of annual interest. The interest comes to us in the shape of huge supplies of wheat and meat, which also pay for our large exports of cotton and woollen goods and so forth. So Lord Beaverbrook's scheme for the improvement of our trade is that we should refuse to receive the payments on our invested capital in the Argentine, in order to enable the Canadian wheat-pool to raise the price of bread in this country.

This does not seem to be a very satisfactory method of overcoming our difficulties. But it is typical of the Protectionist way of looking at things.

The Beaverbrook—Baldwin Plan.

Finally, however, Lord Beaverbrook wound up his United Empire party, and made terms with Mr. Baldwin on the understanding that *if* a trade

agreement is made with one or more of the Dominions, and *if* this agreement involves food taxes, there shall be a referendum, or general vote of the whole British electorate. We need not here discuss the question whether a referendum is a good way of settling complicated questions or not. The main point is that everything has been left in a haze, and nobody now knows definitely what "Empire Free Trade" means, or what the policy of the Conservative party is, except that Mr. Baldwin is to be given a blank cheque to tax anything he likes save food, on which there is to be a referendum.

Lord Beaverbrook, however, is far from happy about the agreement. He thought Jonah (himself) had swallowed the whale (the Conservative party); he begins to think now that the whale has swallowed Jonah. So he is once more fighting Mr. Baldwin with full vigour, and the rival schools of protectionists are hurling anathemas at one another. It seems almost certain that the Referendum, and perhaps Mr. Baldwin with it, will be thrown overboard.

The Gospel of Food Taxes.

What Lord Beaverbrook cares about is the imposition of food taxes; and this is his gospel, the secret of prosperity that he and his newspapers are preaching. He tells the towns that food-taxes will not raise the price of food. But he tells the farmers that his policy is going to save British agriculture. How on earth can taxes on foreign food do any good to British agriculture unless they enable the farmer to get a better price for his products?

Anyway, so far as Lord Beaverbrook is concerned, the imposition of food-taxes, as in the good old days of the "hungry forties," together with a vague hope that *perhaps* the Dominions may be persuaded to give more favourable terms to *some* of our exports, provided that we put obstacles in the way of all our foreign trade, is the sole residuum of the great policy of Empire Free Trade.

Does anybody seriously believe that this is going to bring about a revival of our staple trades? Obviously not. The only results of such a policy would be (1) or raise the cost of living for our people, (2) to cut down our trade with foreign

countries, which is two-thirds of the total, and (3) to start such a sordid business of bargaining and recrimination between this country and the Dominions as would gravely imperil the unity of the Empire.

Every Free Trader believes in Empire Free Trade—provided it is real. But the obstacle lies in the Dominions, not at home. Every Free Trader believes in the development of the Empire, and sees in that one of the main means of recovering prosperity; but the true way to bring about empire development is not by monkeying with tariffs, but by wisely directed capital investment, such as has brought about the marvellous development of the last century.

IV.—WOULD PROTECTION CURE UNEMPLOYMENT?

The most plausible argument of the Protectionist is that if we could only exclude foreign goods, there would be more work for British workmen. That sounds reasonable to a great many people. There is a great outcry against the goods that are "dumped" in this country by the wicked foreigner. We *see* these goods in our shops: most of them are marked "made in Germany," or "made in Sweden." But we *do not* see how small a proportion they form of the goods in the shops, nearly all "made in England." *Still less do we see the enormous quantity of British goods that are "dumped" in other countries.*

For example, there was a great outcry not long since about the woollen goods that were being "dumped" in this country by the wicked foreigner. In 1929 they amounted to 16 million pounds worth, and we promptly re-exported 2¼ million pounds worth of them at a profit. But in the same year, the virtuous Briton "dumped" 53 million pounds worth of woollen goods in foreign countries. He seems, in spite of Free Trade, to have got rather the better in this particular rivalry!

It is worth inquiring, when we are tempted to propose Protection as a remedy for unemployment, what other countries have tried the experiment. Have they been successful? Protectionist America has three times as many unemployed as we have, and protectionist Germany has twice as many.

It is also worth inquiring whether the trades that are already "safeguarded" or protected have got rid of unemployment. Unfortunately we cannot get exact figures for most of them; the figures for the motor trade, for example, are confused with the figures for the cycle-trade, which is not protected. But here are two significant facts: (1) In the protected lace trade there were in 1929 1,600 fewer workers than in the year before the duty was imposed; (2) the trade in which the percentage of unemployed workers is actually highest is a protected trade—artificial silk.

Where Unemployment is Worst.

If we want to examine this question sensibly, we must ask:—In what trades are unemployed men most numerous, and how could Protection help these trades?

Unemployment is at its worst in two kinds of trades.

(1) It is bad in some trades which are especially dependent upon the general prosperity of the country (such as building) but which cannot possibly be helped by a duty, because there is no foreign competition. You cannot "protect" the building trade, because we do not import foreign houses. But if you put duties on foreign bricks, baths, grates, doors and cement, the cost of building will go up, and the building trade will suffer. You cannot protect the transport trades, because we do not import foreign roads and railways; but if you put duties on foreign food and clothes and so forth, the cost of living for trans ort workers will go up. A very large proportion of our people cannot possibly benefit from Protection; they can only be made to pay more for all they buy.

(2) But the most serious unemployment is in the great export trades, which sell a large proportion of their products abroad. And their suffering reacts upon the other trades, because the workers in the depressed trades have less money to spend.

Out of the 1,583,102 unemployed on February 24th, 1930, 142,325 were in the coal trade, 43,268 in the iron and steel trade, 89,364 in the engineering trade, 50,394 in the shipbuilding trade, 134,309 in the cotton trade, and 50,415 in the woollen trade. It is these six trades which mainly need help. Let us consider them in turn.

Coal.

In 1929 we imported £32,890 worth of coal; but we exported £48,600,000 worth. Obviously no good would be done to the coal trade by taxing foreign coal. But what would be the effect upon the coal trade of taxing other foreign imports? In the first place, prices would go up and the increased cost of living of the miners would bring about either a rise in wages or a stoppage. The result would be either that the price of coal would have to be increased with a consequent reduction in sales and an increase in the costs of all other industries; or that some of the weaker pits would have to close down and dismiss their men. Net result, an increase in the number of unemployed.

Iron and Steel.

Turning to the iron and steel trade, in 1929 we imported £24,400,000 worth of iron and steel, and exported £68,000,000 worth. A large proportion of the imports consist of partly-manufactured goods, which we work up into fully-manufactured articles.

If all foreign iron and steel could be shut out, no doubt there would be more work for British iron and steel workers, at any rate to begin with. But the price of iron and steel would of course rise: the only reason why so much foreign iron and steel is coming in is that the British manufacturer cannot sell at the foreign price—largely, in many cases, because his business is not as efficient as that of his foreign competitor.

Even the advocates of the tax estimate that it would raise the price by 10s. a ton. This would, of course, increase the costs of the industries that use iron and steel, notably engineering and shipbuilding. They are already having a hard fight. An increase in the price of their raw material would in many cases be the finishing stroke. And as their output went down, their demand for iron and steel would diminish; so that in the long run the iron and steel trades would be little better off than they were to begin with. In any case, while there are 200,000 men in the iron and steel trade, there are 1,200,000 in the iron and steel using industries; and any increase of employment in the former would be much more than balanced by a decrease in the latter.

Engineering.

Next comes the engineering trade. In 1929 we imported £17,500,000 worth of machinery; but we exported £54,400,000 worth. Many of the imports consisted of special inventions from America or Germany needed to increase the efficiency of other trades, such as the boot and shoe trade. They would come in in any case, but they would cost more; and the trades that used them would suffer.

Apart from these cases, the only reason why foreign machines come in is that they are cheaper or better than the corresponding British machines. If a duty was put on foreign machines, its chief purpose would be to enable the British manufacturer to get a better price in the home market. In any case, he would have to raise his prices because of the increased cost of iron and steel—and, indeed, of everything else he used.

The result would be that he would lose a large part of his export sales, which are vastly greater than the amount of the foreign imports that he might replace. He is already holding his own with difficulty in foreign markets, because of the burden of taxation. The extra price he would have to charge under Protection would be, in most cases, fatal. The amount of unemployment which would be caused by the loss of foreign sales would probably be far greater than the amount of employment that would be gained by the exclusion of foreign machines.

The only ways in which the manufacturer could hold his own at all in foreign markets would be: (*a*) by further reducing wages; and (*b*) by charging still higher prices to the home purchaser in order to sell cheap abroad—to the advantage of our foreign competitors. But he could not do this on a sufficient scale to keep up the existing large volume of exports. The result would be that every industry in the country which uses machines would be heavily penalised, and would find competition still more difficult. Clearly the net result of protection in this case would be to increase enemployment, not to diminish it.

Shipbuilding.

In the shipbuilding industry, obviously a protective tariff could do no good at all; because in

1929 we only imported £190,000 worth of ships, while we exported £15,500,000 worth. But the increased cost of iron and steel, and of engines, and indeed of everything else that was taxed, would increase the cost of ships; we should probably lose most of our export trade; and British shipowners would find that they were hampered gravely in their business by the additional cost of their ships. This is one of the ways in which the shipping trade—which is one of the chief pillars of British strength—would be hurt by Protection.

Cotton.

The cotton-trade, which has always been the greatest of our export trades, has been perhaps the greatest sufferer of all in recent years. It has lost one-third of its exports, and as it exports about 80 per cent. of its total output, this is a very serious matter.

It has suffered partly by the troubles in China, and the tariffs set up in India, for these were its principal markets; partly by the rapid growth of the Japanese cotton industry, which pays very low wages and is very scientifically organised: and partly by the terrific burden of taxation at home.

How could Protection help the cotton industry? It could not possibly restore its export markets, on which it depends. It might exclude the £10,000,000 worth of foreign cotton goods which we imported in 1929, though this is unlikely, because they are mostly speciality goods. But this would be a mere flea-bite; compare that figure with the value of our exports, which amounted to £135,400,000 in 1929. Lancashire can only regain its lost markets by increased efficiency and therefore greater cheapness. Protection, by increasing the cost of everything used in the industry (including machinery) would make this impossible.

Woollens.

We have already referred to the woollen trade, in which in 1929 our imports were £16,000,000 and our exports £53,000,000. It is not from foreign imports that the trade is suffering: they are actually less than they were before the war, when the industry was very prosperous. If *all*

the foreign woollen goods imported into this country were made here instead, this would not give employment to more than five per cent. of the idle looms.

The cause of the trouble in this, as in the other cases, is the decline of exports, and the exclusion of foreign goods would do nothing to amend this Indeed, it might have the reverse effect. Our exports of woollens to Germany are going up, and German Protectionists are crying out against British dumping and demanding higher protection. If we put a duty against German woollens, the probable result would be an increased German duty against British woollens.

It is not worth while to risk a trade of £53,000,000 in the hope of capturing a trade of £12,000,000. But we shall risk the £53,000,000 if we increase the costs of production in the woollen industry by taxing the things it uses, including the new machinery it needs to instal.

The plain fact is that in all these great export trades, in which unemployment is most prevalent, and which are essential to our very existence, Protection cannot possibly do any good, but would do irremediable harm. People are only tempted by the idea because they are short-sighted. They imagine the foreign imports in their own industry being shut out, and *think it would stop at that*; and that they would still be able to purchase all their requirement at a Free Trade price. They forget that if *they* are protected, other trades will be protected also, and the cost of everything they have to use will rise.

It is possible to protect the little trades that mainly cater for the home market, though only at the cost of all the other trades. It is impossible to protect the great export trades by which we live, without making things much worse. And as the major part of our unemployment is due, directly or indirectly, to the decline of these trades, it is clear that Protection can do nothing for unemployment.

V.—CAN PROTECTION HELP AGRICULTURE?

There is no industry in the country which more needs, or more deserves all the help we can give it than agriculture. Would Protection help it?

Yes, *if* the farmers could be protected against *all* competition from overseas; *if* they were thus enabled to charge higher prices to the home consumer; and *if* they were at the same time enabled to buy all their requirements at as low a price as to-day. But nobody proposes to place them in this position.

(1) If food imports are taxed at all, imports from the British Empire will be exempt from the taxes; and Empire produce is now, and will increasingly become, the chief competitive supply. Indeed, Lord Beaverbook insists that the Empire could supply all our needs, and that *there would be no rise in prices*. In that case, of course, the British farmer would have no advantage. Lord Beaverbrook is certainly wrong. Food prices would certainly rise; but they might not rise to the full extent of the duty, owing to Empire competition.

(2) But few things are more certain than that *the British electorate will not vote in favour of food taxes*. This is why Mr. Baldwin is so anxious to keep them in the background: he fears that the mere suggestion of food taxes would (as in 1906) swing the electorate violently against the protection of manufactured goods, which is what Mr. Baldwin and his party chiefly care about. In any case, if the electors *were* persuaded (in a referendum) to approve of food-taxes they would have to be very modest taxes indeed, not big enough to give any material help to the farmer.

(3) Meanwhile, if the Protectionist policy prevails, *the farmer will have to pay more for everything he uses*; and the modern scientific farmer uses far more manufactured goods than his father used to do. He uses chemical fertilisers, and many forms of agricultural machinery and motor-tractors, and many other things, all of which would be taxed—not to speak of the clothes he wears, and the food and clothing of his labourers, whose wages would have to be increased to meet the extra cost of living. And it is often forgotten that the great majority of the farmers of this country buy much of the foodstuffs they use for their cattle. For all this they would have to pay more.

If protection is introduced farmers everywhere will soon discover that the extra coast of every-

thing they buy, and the higher wages which their labourers will have to get, will more than swallow up any advantage they may derive from a small tax on foreign foodstuffs, from which empire foodstuffs are exempted. *And they may find—indeed, they will most probably find—that they have to pay all these extra costs without even getting a modest tax on foodstuffs.*

When (speaking at Norwich) Lord Beaverbrook tried to reconcile his conflicting statements that under Empire Free Trade the price of food would not rise, but nevertheless the farmer would get a better price, he tried to make his position good by pointing to the big gap that undoubtedly exists between what the farmer gets, and what the ultimate consumer pays. No doubt there *is* room there for improvement. But *putting taxes on foreign food at the seaports is not going to affect this one way or the other.* It can be done under Free Trade as well as under Protection, in the only possible way, by co-operation and scientific marketing.

That is how the Danes—who have made farming pay under Free Trade—have managed the matter. When foreign foodstuffs began to pour in from the prairie lands of the new world, they resolved to use them for animal husbandry; they worked out the most scientific methods of marketing and co-operation; and they turned a barren little land into a productive garden. Danish methods, no doubt, cannot be reproduced in all parts of this country. But they show how much can be done by and for agriculture under a Free Trade system.

VI.—HAS SAFEGUARDING BEEN SUCCESSFUL?

The favourite argument of Protectionists to-day is that the various experiments in Protection which have been made during the last few years have been triumphantly successful, and that therefore a general extension of the system would also be successful.

Even if it were true that these experiments had been successful, that would prove nothing. No Free Trader would ever deny that if you take a few favoured industries, give them all the advantage of Protection by shutting out foreign competition (at the expense of the rest of the

community), and at the same time leave to them the great advantage of Free Trade, which is the opportunity of purchasing all their requirements at the lowest price, they *ought* to reap a great advantage.

But the situation is changed if the system is made at all general: at present these Protective or Safeguarding duties only apply to about 5 per cent. of our industry. Even Sir William Morris and Sir Herbert Austin would begin to change their tune if they found that their steel and the leather, and their paint, and all their other requirements, were being taxed.

But is it true that these experiments have really been successful? They have been applied to two types of articles, first a number of little trades, such as lace, and buttons, and wrapping paper, and gas-mantles; secondly a few major industries which were in any case rapidly growing in every country in the world—the most rapidly expanding industries of to-day, motors, artificial silk, cinemas, and gramophones. To claim that the expansion of these industries has been due to the duties is merely ridiculous. They were bound to grow, duties or no duties, because the whole world is demanding their products. This is what Mr. Henry Ford has to say on that point; and surely he ought to know: "The motor-car industry is bound to be in a better condition than some other industries, because it is new. Your motor-car industry could not have helped being a success, regardless of the McKenna duties."

Prices.

It is claimed on behalf of both groups that their prices have not gone up, but in some cases have gone down; and this is said to refute the Free Trade contention that a tariff increases prices. But *all commodities have been going down in price, all over the world*—going down at a very rapid rate. Because of this, instead of increasing their prices, the protected industries have been able to intercept a part or the whole of the reduction that would otherwise have taken place owing to the greater cheapness of all their materials. If the prices of these goods are not higher than they were before the duties were imposed, they are certainly higher than they would have been if no duties

had been imposed. But in some cases they can be proved to be actually dearer.

Employment.

It is claimed that employment has increased in all these industries. In view of their specially favoured position, it certainly *ought* to have done so—at the expense of other trades. But it is impossible to prove, in most cases, that it actually *has* done so, because most of these trades are such small concerns that no separate figures are given for them.

In the case of the lace-trade (almost the only one for which there are separate figures) the official returns of the Ministry of Labour show that, in spite of a revival of the fashion for lace, which has taken place since the duty was imposed, there are actually fewer workers in receipt of wages than in the year before the duty was imposed, and 1,620 workers have left the industry. Meanwhile, in the kindred but unprotected hosiery trade, the number of employed workers has gone up by 13,000. In the case of the motor-trade, the figures were swollen by including all the workers in the cycle-trade, which is not protected, and which has been doing very well. In the case of the artificial silk trade, the percentage of unemployment is actually higher than in cotton.

Nevertheless, we may assume that there has been an increase of employment in the new and growing trades: it would be a strange thing if there were *not* more workers employed in rapidly expanding industries such as the motor and artificial silk trades. But it is certain that the improvement has not been sufficient to make any impression on the total number of unemployed workers, which has greatly increased since these duties were imposed.

Effect upon Exports.

But the main question which we are bound to ask—in view of our national problems—is: What has been the effect of these protective duties upon the export trade by which we live?

When our great staple export trades are declining, we are entitled to expect that these industries which have been specially favoured at the expense of the community, and some of which

are the most rapidly developing industries of the present day, meeting a growing and world-wide demand, ought to be making some contribution to fill up the gap. Are they doing so?

In the case of the lace trade we have already seen that the result of the duties was (1) to reduce our exports of British lace by 16 per cent., and (2) practically to destroy our re-export trade in foreign lace. That is a striking proof that Protection is bad for export trade.

But the most impressive proof of this comes from the greatest of the new industries—artificial silk and motor cars—about which Protectionists are in the habit of boasting as the great examples of the success of their policy.

In spite of the duties, we are importing in the one case nearly as much, and in the other rather more, foreign goods than we are exporting British goods! This failure of these favoured and growing trades to help with our export problem is so astonishing, and forms such a proof of the disastrous effects of Protection upon exports, that the figures for 1929 must be given.

Artificial Silk and Motors.

Take first artificial silk. In 1929 we exported only £970,000 worth of artificial silk manufactures. But we imported *more than three times as much*, in spite of the duty—£3,100,000 worth! Even if we include, among both the imports and the exports, yarns as well as manufactures, and mixed fabrics as well as pure artificial silk goods, the result is that the exports are £8,300,000 and the imports £8,500,000.

Our biggest exports are of yarn; that is, of semi-raw material. This is very different from the old free-trade industries, whose greatest strength lies in fully-manufactured goods, which give the maximum of employment. These figures show that *the artificial silk trade, instead of helping to pay for our imports, is actually increasing the balance we have to meet.* What would be said if the cotton trade, or the woollen trade, showed figures comparable with these? There would be a clamorous demand for Protection. Yet this is the *result* of Protection.

Turn to Motors. In 1929 we exported £10 millions worth. But we imported £9 millions

worth. What would be said of these figures if they related to a Free Trade Industry? This is what Protectionsts call triumphant success!

A Contrast.

It is interesting to compare with these two protected modern industries, which have so signally failed to help us, an unprotected modern industry which, in face of real difficulties, has helped our export trade materially. The Electrical Trade, like Motors and Artificial Silk, is a modern industry which is expanding rapidly all over the world. At first we were left far behind in this trade by Germany and America, because they paid greater attention to science. But, being left to fight their battle without the crutch of a protective duty, the electrical trades have made good. In 1929 we imported £6½ millions of electrical goods. But we exported more than £13 millions.

When the motor trade and the artificial silk trade can show, as the electrical trades can do, that they are exporting twice as much as they are importing, it may be possible for the Protectionist to argue that Protection increases exports. Till then, he had better be silent on that head.

Why is it that Protection is so bad for exports, even when the protected trade has the advantage of buying its requirements in a Free Trade market? The reason is quite simple. The manufacturer, when he is protected against foreign competition, is apt *to fix his attention upon the home market*. When he decides upon his price, he is not forced (as Free Trade forces him) to sell his goods at the world-price. He tries to get a higher price in the protected home-market. And the result is that his price is apt to be too high for the world-market.

That is why Protection is *always bad for export trade*. That is why this Free Trade country, even in these bad times, exports twice as many manufactured goods per head of the population as any Protectionist country. And as our very existence depends upon export trade, this is a matter of supreme importance.

VII.—WHAT WOULD BE THE RESULTS OF GENERAL PROTECTION?

The Conservative Party has practically committed itself to an all-round system of Protection,

subject to a referendum before food is taxed. Lord Rothermere and the *Daily Mail* want a *high* protective tariff. Lord Beaverbrook and his Crusaders want to tax *all* foreign imports, including food and raw material. What do they all think would be the result of such a policy? What are their claims?

Protectionist Claims.

The extreme form of their claims has perhaps been most clearly explained by Sir Henry Page-Croft, who has asserted that the Conservative policy would (*a*) put an end to unemployment, and (*b*) make it possible to reduce the income-tax by 2s in the pound.

Probably few Conservatives would go quite so far as this. But (in a more moderate form) these two aims are probably present in the minds of all Protectionists. They think that by shutting out foreign goods more work would be provided for British workers. And they think that *direct* taxation (which is paid mainly by the well-to-do) might be greatly reduced if *indirect* taxes (which are paid by everybody and weigh most heavily on the poorest) were greatly increased.

Sir Henry Page-Croft's statement is evidently based upon a calculation which deserves to be looked into. It has two sides.

Protectionist Arithmetic.

(1) Last year (1929) we imported £334 millions worth of foreign manufactured goods. If we assume that half of the cost of these goods represented the wages of labour, this would give us £167 millions; which is just about what would be needed to pay a wage of £2 a week to 1,600,000 men—approximately the number of our unemployed. Evidently, therefore, Sir Henry has calculated that if we could *entirely* exclude all foreign manufactured goods and make them at home, we should be able to give employment (at a low wage) to all the unemployed. But this calculation overlooks several not unimportant considerations.

(*a*) A great many of these imports could not possibly be produced in this country. For example, our whole supply of petrol is included among them. You cannot turn unemployed

cotton-weavers on to the production of petrol without any oil-wells to get it from.

(*b*) We are told that Imperial goods are not to be excluded, or taxed. This alone spoils Sir Henry's calculation.

(*c*) Foreign imports are in the main paid for by British exports. *If the imports are stopped, a large proportion of the exports would necessarily be stopped also*; and in this way the number of workers in the export trades who would be thrown out of work would just about balance the number of workers who might be employed in replacing the excluded goods.

(*d*) In any case, experience shows that a duty does *not* shut out the foreign imports. As we have already seen, the amount of foreign imports of cutlery and lace has actually been *increased* since the duties were put on, while the number of workers in these trades has been *reduced*.

So Sir Henry Page-Croft's calculation does not hold water. Nevertheless, this is what he believes: that you can entirely exclude foreign goods by means of a duty, and that by doing so you can give work to unemployed British workers.

Having It Both Ways.

(2) In regard to his promise to reduce the income-tax by 2s. in the pound, Sir Henry Page-Croft has evidently made another calculation. If a duty of 33⅓ per cent. (which is the standard safeguarding duty) were imposed upon all our £334 millions of foreign imported manufactures, and paid (of course) by the purchasers of these goods, the Customs officers would collect £111 millions in duties. It would cost £120 millions to reduce the income-tax by 2s. in the pound, so that the yield of the duties would be £9 millions short. But that is nothing to a Protectionist arithmetician!

In order to yield this amount, however, all the foreign goods would still have to come in, and be bought in this country. But in that case what becomes of the employment that was to be given by shutting them out?

Sir Henry Page-Croft's plan, therefore, is (1) to keep them all out, in order to give work to the unemployed; and, at the same time (2) to let them all in, in order to relieve the income tax payer at the cost of the purchasers of these goods.

This is characteristic Protectionist arithmetic. It reminds one of the cutlery manufacturer who wrote to *The Times* to assert that we were importing enough foreign razor-blades every year to cover the whole area of the country eight times over. Unfortunately a Cambridge scholar worked out the sum; and discovered that, if the cutlery manufacturer was right, each man, woman, and child in this country must be spending £125,000 a year on razor-blades alone!

Effect upon Unemployment.

We have already examined the question of whether and how Protection can help unemployment; and we have seen that it must necessarily have the effect of making the situation worse. It would inevitably cause a serious decline in our export trade—perhaps to the level of that of the most successful Protectionist countries, which is in proportion to population only half of our own, perhaps even further; and, as we have seen, it is the decline of export trade which is the chief cause of unemployment.

Protection would be bad for exports in two ways: (*a*) it would increase the costs of production in every trade by raising the prices of all their requirements, and would therefore make it more difficult to sell their products abroad; (*b*) by shutting out imports it would reduce the demand for our exports, which are the payment for the imports, and would therefore cause more unemployment in the export trades, where unemployment is already at its worst.

Effect upon Wages.

The second great result of a Protectionist policy would be to *increase the cost of living all round, and therefore to reduce the real value of all wages*, because every pound would buy less. That is the invariable result of protection. It is an indirect way of reducing wages.

Everbody who bought any foreign-produced article would, of course, have to pay the duty in addition to the actual price of the article. Indeed, he would have to pay more. Suppose the foreign manufacturer is able to sell a certain commodity—say a pair of boots—at the price of 20s. The English shopkeeper has to add his expenses

and his profit, and sells the boots at (say) 25s. But a duty of 33⅓ per cent., or 6s. 8d., is put on. The shopkeeper now has to pay 26s. 8d.; and if he charges for his expenses and his profit at the same rate as before (25 per cent.) he will only be able to sell the boots at 33s. 4d. So the purchaser of the boots will have to pay 8s. 4d. more as the result of the duty, though the Government will only get 6s. 8d. The purchaser will have so much less to spend on other goods, such as shirts; and the other trades will suffer.

Taxing for Private Advantage.

But it is not only the foreign goods that will cost more. British goods of the same kind will also cost more, partly because the British manufacturer will have to pay more for all his requirements, and partly because (under the shelter of the tariff) he will be tempted to raise his prices in order to get more out of the home purchaser.

Thus it is not only on the foreign imported goods that we shall be taxed, but also on the British goods of the same type. But *while the tax on the foreign goods will go to the Government, the tax on the British goods will go into the pockets of the manufacturers.* This is one of the greatest evils of a system of Protection, that it enables private persons to tax the people.

Transferring the Burden of Taxation.

Perhaps the taxes on the foreign goods which are collected at the Customs Houses will bring in enough to enable the Income Tax to be reduced. Evidently this is what Sir Henry Page-Croft hopes for. But see what this means. It means that the *burden of taxation will be transferred from the Income Tax payer (who is most able to bear it) to the mass of the people, including the poorest.*

One of the greatest reforms of the nineteenth century was the gradual transfer of the burden of taxation from the poor (who mainly pay duties on goods, or *indirect* taxes) to the well-to-do, who mainly pay *direct* taxes on their incomes.

Before Free Trade was introduced almost everything people used was taxed in this way. The burden fell most unjustly upon the poor, and a widow with a large family had to pay more just because she had to buy more. Since Free Trade

was introduced, very few things (and these mostly luxuries, such as beer and tobacco) have been taxed; and these taxes have been imposed in such a way that the whole of the taxes go to the Government.

The Protectionists want to reverse this process. They want to put *more and more taxes upon the things that everybody uses, food and clothes and boots.* And they want to impose them in such a way that only a part of the extra cost paid by the people will go to the Government for necessary public services: the rest will go into private pockets.

Summary.

Thus the results of a general system of protection may be summed up as follows:—

(1) It will reduce the amount of our exports; and we live by exports. It will also kill our re-export trade, and strike a severe blow at our shipping.

(2) In this way it will cause far more unemployment than it cures, especially in the export trades.

(3) It will increase the cost of living all round, and therefore greatly reduce real wages, as it has done in all the Protectionist countries of Europe. *When Protectionists argue that they need Protection because wages are lower in Protectionist countries, we should ask ourselves whether we really want to put ourselves on the same level as Protectionist countries in this respect.*

(4) While giving no more work to the workers, but probably less, and at the same time reducing his real wages, it will enable the manufacturer to make bigger profits at the expense of the home consumer—except when he depends upon export trade, in which case his difficulties will be greatly increased.

(5) It will transfer a large part of the burden of taxation from the comparatively well-to-do Income Tax payer to the mass of the people who will be taxed (without knowing it) in the increased price of everything they buy.

If the British people are foolish enough to walk into this trap, they will deserve all they get.

VIII.—WILL FREE TRADE EXTEND?

Protectionists often say that they would believe in Free Trade, if it was Free Trade all round.

They say that this was what Cobden, the great founder of Free Trade, hoped for and expected; and that if he had lived to see the disappointment of his hopes, he would have given up his Free Trade ideas.

Of course it would be better for us, and for the whole world, if Free Trade became universal. But we have seen that, even as things are, Free Trade is the only safe course for us to pursue, in our crowded island which cannot possibly support itself.

Why are the Nations Protectionist?

Why have nearly all the nations of the world adopted Protection? Does this prove that we are wrong? Of course it does not. Are the other nations more prosperous than we are, even in these bad times? Have they better wages, or a higher standard of living, or less unemployment? Apart from the new countries, with their inexhaustible resources, they are all worse off than we are, in one way or another.

The existence of artificial barriers to trade between nations is just as foolish and wasteful and costly as the existence of similar barriers between England and Scotland, or between Lancashire and Yorkshire, could be. Does anybody think that Kent and Sussex could make themselves more prosperous by taxing all goods sent from one county into another?

Why then, do the nations go on "protecting" themselves in this way, as if they were somehow hurt by exchanging goods and needed to make it as difficult as possible? There are several reasons.

Taxing the Foreigner.

(1) Most people think (like our Protectionists) that they can somehow "tax the foreigner," whereas they can only tax themselves. We are sometimes told that Free Trade is "old-fashioned." It is Protection that is old-fashioned. It is as old as human folly; for ever since States existed people have imagined that they could somehow "tax themselves into prosperity" by putting taxes on the goods they bought from other people.

Tariff Warfare.

(2) The nations have got into the habit of regarding *international trade as a sort of war between*

nations, and tariffs as the weapons of warfare. And, in truth, this notion is a very dangerous one, because it is the most fruitful source of friction and even of open war between nations. The real truth, of course, is that *there is no such thing as trade between nations.* Nations do not buy and sell goods: individuals in the various nations do. And when an Englishman sells cotton cloth to a German, or a German sells dyes to an Englishman, the transaction is not a hostile one: it is advantageous to both sides. Each buyer gets something that he wants, and each seller gets rid of the goods he wants to sell. Yet Governments and politicians go on persuading themselves that somehow these transactions by individuals can in the main be hurtful to the nations as a whole.

Vested Interests.

(3) Another reason why nations cling to protection is that *once a protective tariff is set up, vested interests are created, which are very powerful.* The manufacturer is convinced that he profits by being enabled to force his fellow-countrymen to buy his goods, though they may be dear and bad, instead of exchanging other products for the cheaper and better articles offered by somebody else. And he is willing to spend money, if need be, in defending his privilege. *A party that promises to give "protection" will always get subscriptions from people who want to be "protected."* The consumer, who has to pay the cost, is unorganised, and scarcely realises how he is affected. That is why a Protectionist system, once established, is always difficult to get rid of—as we have seen by the clamour raised by the "safeguarded" trades when the period for which they had been "safeguarded" ran out.

Economic Self-Sufficiency.

(4) Even more important is the idea that it is a good thing for a nation to be self-sufficient, or as nearly self-sufficient as possible; and so, instead of being content to do the things they can do best, they try to force into existence (at the expense of the community) industries which they cannot carry on so well. This is as if a man were to persuade himself that he would be more prosperous if he made his own boots and clothes instead of

buying them from those who could make them better.

But if there is one lesson more than another which the war ought to have taught us, it is that *all the peoples of the earth are mutually dependent upon one another.* In actual fact, no nation in the world can possibly be self-sufficient, or can do altogether without the things that other nations can supply. We, of all nations, are least able to be self-sufficient. We shall only ruin ourselves if we try. It is because of this false ideal of self-sufficiency that the nations go on building up armaments, though they cannot possibly make themselves safe in this way: the only way to safety is mutual understanding and mutual defence. In the same way, the nations strive after self-sufficiency in the economic sphere, which is even more unattainable.

Protection is the policy that aims at self-sufficiency. Free Trade is the policy that recognises our mutual dependence. And the reason why we led the world in the adoption of Free Trade is that we were forced by the very circumstances of our national life to recognise that self-sufficiency was unattainable.

Sooner or later, if civilisation is to endure, disarmament by agreement must come, and the nations must learn that this is the only line of safety. And, in the same way, sooner or later, universal Free Trade must come, and the nations must learn to recognise the lesson of mutual dependence and mutual aid.

Signs of Change.

Are there any signs that we are drawing nearer to this happy consummation? At the moment the omens are not favourable. Since the war, and because of the fears and jealousies created by the war, most of the nations are more than ever bent upon being "self-sufficient." This is one of the main reasons why they are nearly all suffering from very bad trade depression.

But there *are* some signs that the outlook is changing.

In America.

America is, of all countries in the world, the one which attains most nearly to self-sufficiency. Since the war she has had a period of immense

prosperity, and she has developed an enormous export trade, such as she never enjoyed before. This export trade is now necessary to her; she cannot keep her people employed without it. But because of her high tariffs, she cannot take payment for her exports in the only form in which it can be made—the form of goods. *In actual fact, she has only been able to keep up her exports by lending to her customers the money with which to buy them, or in other words, by selling on credit.* But this cannot go on indefinitely. It has reached a crisis in the slump of this year, 1930. America has stopped lending; and consequently she has suddenly lost an enormous proportion of her export trade. And America is just beginning to realise that she must either sacrifice her export trade, or lower her tariffs, so that she may be able to accept payment for her exports. Which she will do, remains to be seen. But sooner or later, since she must export, and Protection hinders exports, she will have to advance towards Free Trade.

Australia has been brought to the brink of ruin by the insane Protectionist policy which she has been pursuing with the idea of making herself "self-sufficient."

The farmers of America and Canada are very hard hit because they have to sell their products at world-prices, but have to pay heavy prices (under Protection) for all that they buy.

In Europe.

The European nations are being slowly driven to similar conclusions. That is why they are beginning to talk about the "United States of Europe"—they realise that their tariffs are ruining them, and that they need freer trade.

In 1927 the League of Nations summoned a Conference of all nations at Geneva to consider how economic disaster could be averted from Europe. *They came to a unanimous agreement*—though nearly all the delegates came from Protectionist States—*that tariffs, which mean the interruption of the currents of trade by artificial barriers, were ruining the whole continent*; and that the only way of safety lay in an advance towards Free Trade.

Not much progress has yet been made, because the vested interest are very strong. But it must

come. What a disaster it will be if we, who led the world in the advance towards Free Trade, should choose this moment to abandon that great cause! If we, of all nations, fall a prey to the unattainable idea of self-sufficiency, we shall, to a certainty, ruin ourselves. We should also strike a terrible blow to the great cause of closer international relations and organised peace.

Free Trade is vital to our existence as a nation. But it is more than that. It is not only economically sound, it embodies a great moral ideal.

May Heaven grant that the British people, even under the pressure of grave economic difficulties, do not play false to one of the greatest causes for which they have stood.

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